

DRAFT PAPER produced by the IAED Working Team on the Topic:

Identifying the “ERRORS” of MARXIST ECONOMICS which prohibit the implementation of a Truly Efficient and Beneficial Economy for All

Date: 11th October 2022

1. OUR GOAL

1. To produce a Draft paper clarifying and underlining simply, Marxist Economy “errors”: explaining that the Marxist Economic approach does not fit into an “efficient” economic system.
2. This paper will analyze Marxist Economy “errors” without attempting to analyze other key aspects of Marxist Thought, such as its materialistic, dialectic, or historical approaches.

2. WHY THIS PAPER

1. Today, despite the fact that Marxism creates great confusion about its contents and leads to the creation of harsh and oppressive dictatorships, Marxist Thought **is still seen by many as a respectable intellectual approach** to addressing humanity’s social and economic problems.
2. Given that the IAED’s focus is on “Economic Development for Peace”, this paper will explain that **Marxist Economic Thinking leads to very inefficient and grossly unfair** economic and income distribution systems.
3. **Marxist Economics proclaims** that its theory is the “true one” in a fight against “evil” capitalism and that Marxist Economics offers a **feasible and true** economic solution which achieves Social Justice.
4. The main conclusion of Marxist Economics is that private **ownership of the means of production always produces exploitation** of the Worker even if the Owner does not want to exploit the Worker. Marxist Economic Thought believes that it offers an interpretation that demonstrates this.
5. Marxism posits that **all Managers**, even if they are not owners, are accomplices of the Owners, so they **are also “Enemies”** of the Working class.

6. The “masterpiece” of Marxism is “*Das Kapital*”, which has over 1,000,000 words (more than the 760,000 words of the entire Bible). *Das Kapital* attempts to prove Marxist economic ideas. Many people, even intellectuals, are deceived by this theory and even nowadays there are quite many who **still believe that Marxist Economic theories are scientifically proven.**
7. A big problem is that **most "Leftists" don't know** what the contents of Marxist Economic Thought are. Even worse, is that **most Right-wingers (anti-Marxists) also do not know** what these contents are, and are not able to point out the errors of Marxist Economic Theory.
8. Thus, many people who adhere to Marxism are very idealistic and believe that Marxism will lead to a "Utopian" society (even though they don't know how this will come about). Most of them blindly believe that Marxism provides key answers about the future of our society.
9. **Understanding the Errors of Marxist Economics** makes it easier to understand what “*Head-Wing Economics*” should avoid and what it should clarify the basic direction that Head-Wing Economics should take.

3. KEY IDEAS OF MARXIST ECONOMIC THEORY:

1. It is based on the theories of **Labor value** and **Surplus value**.
2. Maintains that the Free Market is an instrument of Exploitation.
3. Denies private ownership of the means of production because it considers private property the source of all the evils suffered by mankind.
4. Maintains that there are **THREE LAWS** that **foresee the inevitable Fall of Capitalism**:
 - a) The continuous decline of the rate of profit
 - b) The constant increase of the accumulation of capital; and,
 - c) The constant growth of impoverishment of the population

4. MARXIST THEORY OF LABOR VALUE.

1. The theory of labor value states that the prices of commodities are the result of the time (hours) of labor necessary to produce them.
2. The same happens with raw materials and with the machinery and work tools used in the production process, Marxist Labor Value Theory

sets out that they are the result of a certain amount of time (hours) of work.

3. It must be considered that the working time of each employee is not only the hours they work, but also the preparation time each needs to reach their capacities. That is to say, the time of study and practice to reach a professional capacity. E.g. One hour of working time of a professional is equivalent to several hours of the unskilled work of a laborer.

4. **Adding up all these times** necessary to produce the commodity: raw material, machinery, training times, etc., Marxist Economic Theory **says that we can know the price of the merchandise even before** sending it to be sold.

5. ERRORS OF THE LABOR VALUE THEORY.

1. Reality shows that although the time (hours) spent producing two T-shirts is the same, their price (value) can be very different because they can be of different models.

2. Even if both are of the same model, they may be of different color and people may prefer one of them to another. So, if the item of color X disappears from the store and nobody buys the other one, can it be said that both have the same value? Obviously, if customers prefer one and are willing to pay more for that model than the other, then both are NOT of equal value, even if they were produced at the same time by the same employees.

3. Two bottles of Coca-Cola can have different price/value for customers, because one was bought in a supermarket and the other on the beach on a hot day.

4. Different goods very often have different prices, even though each of them needs the same time (hours) to be produced. Why?

5. Marxism says that this happens because the unit of time (one hour) of the different professionals who have produced the commodity has different value.

6. But how can one calculate the value of the hour of work of a professional in comparison with another professional of another sector, for example, a tailor and a painter? Marxism gives a solution: let us

compare the prices of the respective products that each produces in the same time period (e.g. two suits and a painting). If the price of the two suits is double that of the painting, the Marxist idea is that the time hour of the Tailor is equivalent to two-hours of the Painter's time.

7. However, this is irrational and contradictory because Marxism tells us to go to the market first, to find out the value of the goods! Then when the market has given this information, the Marxist calculates the value of the hour of each professional. This indicates that it **is the MARKET that allows us to know the prices** of the different goods!

8. The reality is that it is in the Market that the value of different goods is manifested, as a result of the meeting of **supply** and **demand**.

9. Marxist Labor Theory does not accept this. Therefore, it leads to government bureaucracies setting the prices of goods, in place of markets. But they fail, because the key point resides in the fact that the value of merchandise is **Subjective**, not **Objective**! It is NOT the result of adding the hours of working time. Only the market can identify the value of goods, which are variable according to supply and demand in each place.

10. Why does Marxism insist on the Labor Theory of Value in commodities? Because Marxism wants to present the value of any commodity as an **Objective result of the number of hours** of labor used to produce it.

11. Why? Because if the value of the commodity is not something objective, the wage will not be either. That is to say, if there is no objective price for the commodity, how can we establish the objective wage of the worker who produced it? Marxism aims to deny the reality which shows that prices and wages are the result of the agreement between two parties: seller and buyer or employer and worker.

12. Consequently: there are neither so-called fair (objective) prices nor fair (objective) wages, but only prices or wages derived from agreements arising from the commodity market or the employment market.

13. Therefore, how can Marxism maintain that the employer does not pay what he objectively should pay the worker? How can it maintain that the employer exploits his employees, or that the salesman exploits his customers?

14. Marxism affirms that the value (price) of a commodity is the sum of the values of the raw materials, machinery and tools plus the value added by the worker.

15. Marxism confuses “cost of production” with “values/prices”. The former can be calculated by the accountant. The latter are defined in the market.

6. SURPLUS VALUE THEORY

1. Marxist Theory considers that the profit that the owner/employer obtains comes from not having paid the worker all the value that his labor has added to the commodity in the production process.

2. To sustain this theory, Marxism insists that the commodity has an objective value as a result of adding the values of raw materials, machinery, tools, and the value added by human labor.

3. Marxism says that raw materials, tools, machinery, energy, etc. add to the commodity the value they lose by being incorporated into it. In the case of tools or machinery, this value is lost by depreciation.

4. Marxism says that the worker brings to the market his “labor power”, which he sells, as a commodity, to the employer in exchange for wages.

5. Marxism affirms that the value of the worker’s “labor power” is similar to the value of any other merchandise. That is, the value of the basic things (food, clothes, blankets, lodging, etc.) that are needed to reproduce, in the following day(s), the “labor power” needed to return to the factory with enough capacity to continue working.

6. Marxism says that the worker's wage is the price of the “labor power” and that this payment is the minimum necessary to survive (to buy food, clothes, etc.) and to reproduce children to replace the worker in the future when he or she is no longer able to work.

7. Marxism says that when a worker goes to work, they give the employer their working hours (e.g. 10 hours of work). However, the time to produce the basic things (food, clothes, etc.), to keep them alive and ready to go back to work, is for example, 6 hours. Therefore, the employer is left with

four hours that are “for free” because the worker has not been paid for them. These 4 hours are the **added value**, or **Surplus Value**.

8. How does the employer increase his profit? Marxism states that the **employer tries to prolong the working hours** in order to obtain a higher surplus value. Marxism calls the extension of the working day (for example, from 10 to 12 hours) “**Absolute Surplus Value**”.

9. But Marx saw that, contrary to this theory, some employers did in fact, shorten the working day of their employees and still some made higher profits. Marx then invented another idea: The “**Relative Surplus Value**” that could be obtained by **shortening** the working day! He said that when productivity in society increases, the prices of basic commodities (food, clothing, etc.) go down and then the employer could **reduce** the Worker’s wage. In this way, Marx said, the entrepreneur could obtain additional **relative surplus value** and **increase his profits**.

7. ERRORS OF THE THEORY OF SURPLUS VALUE

1. In the state of slavery, the slave received only the payment for the means needed to stay alive and to continue working day by day.

2. In the Feudal State, Serfs had to pay their Masters part of their production and could keep the rest. Regardless of how harshly or otherwise their Masters treated them as serfs, they preferred to be serfs rather than slaves. This shows that their situation at least gave them a higher income than the “cost of subsistence living” which was the “remuneration” of slaves.

3. In the initial Capitalist state, the facts show that, although the general condition of the workers could be described as “exploitative”, there was an evolution. Their daily working time was eventually reduced, even by decisions of the Capitalists, who realized that the quality of the worker and their involvement in the factory, increased productivity (in quality and quantity).

4. Marx, in *Das Kapital*, gives several examples (See *Das Kapital*, Book One Chapter XIII) that are contradictory to his theory of *Relative Surplus Value*. For example, he indicates that in some factories, labor time was reduced,

while at the same time workers' wages were increased and employers' profits also increased, in contradiction of Marx's Surplus Value theory.

5. This happens because profit is **not necessarily based on the exploitation of workers** but on the creation of new products, new and more efficient processes, greater participation and creativity of employees and better and more proactive relations with customers.

8. MARXIST LAWS THAT FORESEE THE FALL OF CAPITALISM

1. Reality shows that in advanced market economy societies, although there may be large differences in wages, the wealth of the middle class increases and the lower classes also. As they also receive social benefits such as scholarships, health care and other benefits. So, their standard of living improves and bears no relation to the situation that existed in the early days of industrial capitalism.

2. This reality shows that the Three Marxist laws that foresee the inevitable fall of Capitalism are wrong, for if they were true, Capitalism would have collapsed already. However, even today Marxists still consider these laws to be true. Let us analyze each of these laws.

3. **First law, the diminishing rate of profit:** Marx said that in the market the owner/employer needs to invest more in capital (for example, in machinery) to increase productivity and in order to compete in the market with other capitalists. As the surplus value comes from the worker, and many workers are replaced by machinery, the total surplus value produced is lower and the capital investment higher, so the rate of profit (surplus value/investment) will decrease more and more. Statistics tell us that this does not happen in Market Economy societies.

4. **Second law, the increasing accumulation of capital:** The desire to compete in the market pushes owners to invest in new and more productive machinery. But since new machinery is expensive, only big Capitalists can buy them. Therefore, lesser Capitalists can't compete and therefore go bankrupt and become part of the Proletariat (people without property).

In the Capitalist society there are individuals and corporations with a very high level of profit and property. But also, many of these corporations are often joint-stock companies, whose shares are owned by numerous individuals.

There is also a growing number of small and medium-sized enterprises (typically between 80-90% of the total number of enterprises in advanced market economy countries). Even owning our house is a form of capital that can be used for earning rent.

5. **Third law, the growing impoverishment of the population.** Marxism indicates that wages (labor force payments) are always the minimum necessary to keep workers alive, and as the number of jobs decreases, the number of unemployed workers increases. More and more every day, there will be an increasingly large mass of hungry and impoverished unemployed, ready to accept lower salaries. Statistics tell us that this does not happen in the Market Economy. The employment figures are constantly growing and the social benefits for the unemployed, sick, or aging as well as the pension systems, disprove this Marxist law of the **existence of a mass of hungry and impoverished workers.**

6. Finally, Marxism concludes that since these laws are true, humanity must no longer put up with this situation, but must revolt against the Owners and the Capitalist system and begin to build Marxist Socialism immediately.

9.CONCLUSIONS: THE ROLE OF MARKET, INITIATIVE AND PRIVATE PROPERTY

Marxism Economic Theory has not worked in any of the 30 communist nations that have applied it. Only when Communist nations, such as China, dispensed with Das Kapital and threw it into the trash, did their economies begin to work. Why? Because:

1. **The MARKET is necessary** to connect supply and demand. **Knowing which goods** must be produced to fit what is demanded by citizens is an essential tool for an efficient economy that through the market knows what buyers want and what price they are ready to pay for it.

2. **Private initiative is necessary** to create new products, develop new processes and take quick and responsible decisions at any moment. A centralized economy is incapable of quickly taking the decisions necessary at a given moment, to improve the complex economic processes of production and distribution. The bureaucratic system of adopting centralized decisions is highly inefficient.

3. **Private property** is necessary because private initiative involves taking risks and because new products or services may not succeed in the market. Who can assume the risks of such decisions? Private initiative has to be backed by **private property**, in order for entrepreneurs to be able to assume those risks.

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